REPORT ON EXAMINATION

OF

GENERAL SECURITY INSURANCE COMPANY

AS OF

DECEMBER 31, 1998

DATE OF REPORT	SEPTEMBER 26, 2002
EXAMINER	MARC BRUCKSTEIN

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

September 26, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 21417, dated June 7, 1999 attached hereto, I have made an examination into the condition and affairs of the General Security Insurance Company as of December 31, 1998, and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at Two World Trade Center, New York, New York. Subsequent to the destruction of the Company's offices on September 11, 2001, operations were relocated to 199 Water Street, New York, New York.

Whenever the designations "Company" or "GSIC" appear herein without qualification, they should be understood to indicate the General Security Insurance Company.

1. SCOPE OF EXAMINATION

The prior examination on organization was conducted as of November 8, 1996. This examination covers the two-year, two month period from November 8, 1996 through December 31, 1998. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 1998, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of the Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of the Company
Business in force
Reinsurance
Loss experience
Market conduct activities
Accounts and records
Financial statements

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

Concurrent examinations were made of the Company's parent, SCOR Reinsurance Company, and its affiliates, General Security Indemnity Company, and General Security Property & Casualty Company, all three being New York domestic insurers. Separate reports have been rendered thereon.

2. DESCRIPTION OF COMPANY

General Security Insurance Company was incorporated on October 15, 1996 under the laws of the State of New York, to serve as a vehicle for the redomestication of the Company from Maryland to New York. Effective December 31, 1996, this Company merged with its predecessor, General Security Insurance Company Rockville, Maryland. Concurrent with the 1996 merger, the surviving entity adopted its present name. The predecessor company was incorporated April 22, 1936 under the laws of Maryland and began business on the same date as The International Insurance Company of Takoma Park, Maryland ("IIC"). On December 4, 1992, IIC was purchased by SCOR Reinsurance Company and changed its name to General Security Insurance Company on January 12, 1993.

On December 31, 1994, the policyholders' surplus of General Security Insurance Company was increased to approximately $22 million through a contribution to surplus of $10 million by the company's parent, SCOR Reinsurance Company.

Pursuant to its charter, the Company's paid-up capital of $5,000,000 consists of 5,000 shares of common stock at par value of $1,000 per share. All authorized shares are outstanding.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. As of the examination date, the board of directors was comprised of fourteen members. The board meets four times during each calendar year. The directors as of December 31, 1998 were as follows:

Name and Residence	Principal Business Affiliation
Louis Anthony Adanio Morganville, NJ	Senior Vice President, SCOR U.S. Corporation
Jacques Patrick Blondeau Paris, France	Chairman and Chief Executive Officer, SCOR S.A.
Allan Melville Chapin New York, NY	Senior Partner, Sullivan & Cromwell
John Roger Cox Roseland, NJ	Retired
Jeffrey Dale Cropsey New Canaan, CT	Senior Vice President and Chief Financial Officer, SCOR U.S. Corporation
Robert Thomas Faber Sleepy Hollow, IL	Senior Vice President, SCOR Reinsurance Company
Jerome Faure Larchmont, NY	Executive Vice President, SCOR U.S. Corporation
Jerome Karter New York, NY	President and Chief Executive Officer, SCOR U.S. Corporation
Dominique Philippe Lavallee Toronto, Ontario, Canada	President and Chief Executive Officer, SCOR Canada Reinsurance Company
Serge Michel Phillippe Osouf Paris, France	President and Chief Operations Officer, SCOR S.A.
Patrick Peugeot Paris, France	President, La Mondiale
Francois Reach Paris, France	Group Senior Vice President, SCOR S.A.
David J. Sherwood Ponte Vedra Beach, FL	Retired
Ellen Elizabeth Thrower New York, NY	President, The College of Insurance

The minutes of the Board of Directors' and committees thereof held during the examination period reviewed. All meetings were satisfactorily attended.

The following were the principal officers of the Company on December 31, 1998:

Name	Title
Jacques P. Blondeau	Chairman of the Board of Directors
Serge M. P. Osouf	Vice Chairman of the Board of Directors
Jerome Karter	President and Chief Executive Officer
Louis Adanio	Senior Vice President
John T. Andrews, Jr.	Senior Vice President, & Corporate Secretary
Jeffrey D. Cropsey	Senior Vice President and Chief Financial Officer
Jerome Faure	Executive Vice President
Joseph F. Peloso	Senior Vice President

B. Territory and Plan of Operation

As of the examination date, the Company is licensed in all states except, Connecticut , Louisiana, Maine, Massachusetts, Missouri, New Hampshire, New Jersey, North Carolina, Rhode Island, Vermont, West Virginia. It is also licensed in Guam. Approximately 83% of the Company's direct writings in 1998 were concentrated in California, Florida, and New York.

DIRECT PREMIUMS WRITTEN (000's)

Calendar Year	New York State	Total United States	Percentage of U.S. Premiums Written in New York State
1997	$7,068	$38,981	18.13%
1998	$32,768	$93,316	35.11%

As of December 31, 1998 the Company is licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Insurance
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine
21	Marine protection and indemnity

The Company may also write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended). Additionally, the Company is licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and the Company’s current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, GSIC is required to maintain a minimum surplus to policyholders of $4,400,000.

The Company is a direct writer and the majority of its business is produced by program administrators (“PAs”). Its claims settlements are handled by third party administrators (“TPAs”).

C. Reinsurance

The Company had participated in an inter-company pooling agreement with certain affiliated companies. Pursuant to the terms of this agreement, which was effective January 1, 1991 and approved by the Department on April 5, 1991, Unity Fire and General Insurance Company, now General Security Property and Casualty Company (“GSP&C”), General Security Insurance Company (“GSIC”), and General Security Indemnity Company (“GSIND”) ceded their net liability under all new and renewal business written after January 1, 1991 to SCOR Reinsurance Company (“SCOR”) and the entire pooled business was then allocated among the pool members as follows:

SCOR	80%
GSP&C	5
GSIC	10
GSIND	5
Total	100%

Business written prior to 1991 by the pool members was 100% ceded to SCOR.

The pooling agreement was terminated as of December 31, 1996, and net unearned premiums of $46,141,000, and net losses and loss adjustment expense reserves of $117,219,000 were transferred back to the participants that initially produced such business to the pool. The pool was then distributed to the pool members in accordance with established proportions.

The pooling agreement was replaced with a quota share reinsurance agreement between SCOR and its subsidiaries effective December 31, 1996. The New York Insurance Department approved the reinsurance agreement on December 18, 1996. Under this agreement SCOR assumed 90% of GSIND, GSIC, and GSP&C net retained underwriting assets and reserves. The agreement also covers 90% of all policies written or renewed on or after January 1, 1997.

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

The examiners reviewed all ceded reinsurance contracts effected during the examination period. These contracts all contained the required standard clauses including the insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had in effect the following reinsurance ceded contracts at December 31, 1998.

<u>Type of Contract</u>	<u>Cession</u>
Casualty 100.00% unauthorized	90% of $3,500,000 excess of $2,500,000 net loss, each occurrence.
Property and Casualty and Surety 100% unauthorized	This is a Variable Retro established for specific placement, max cession.
Underlying Property 100.00% unauthorized	$25,000,000 excess of $5,000,000 each loss, each occurrence.
Property Catastrophe 100.00% unauthorized	
Three Layers	95% of $180,000,000 excess of $30,000,000 each loss occurrence.

Type of Contract	Cession
Political Quota Share 100% unauthorized	95% quota share of any one/policy acceptance of net retained liability, maximum cession of $4,750,000
Healthcare/Workers Compensation Variable Quota Share 100% unauthorized	95% maximum quota share, requires approval on a case by case basis.
Statutory Workers' Compensation Per Claimant Excess of Loss 48% authorized, 52% unauthorized	
First Layer	$3,000,000 excess of $2,000,000 each loss, each claimant.
Second Layer	$5,000,000 excess of $5,000,000 each loss each claimant.
Per Occurrence Excess of Loss	
First Layer	$3,000,000 excess $2,000,000 each loss occurrence
Second Layer	(a) $5,000,000 excess $5,000,000 each occurrence- based on $10,000,000 statutory coverage (b) $15,000,000 excess $ 5,000,000 each occurrence – based on unlimited statutory coverage.
Third Layer	$30,000,000 excess $20,000,000 each loss occurrence.
Fourth Layer	$50,000,000 excess of $50,000,000 each loss occurrence.

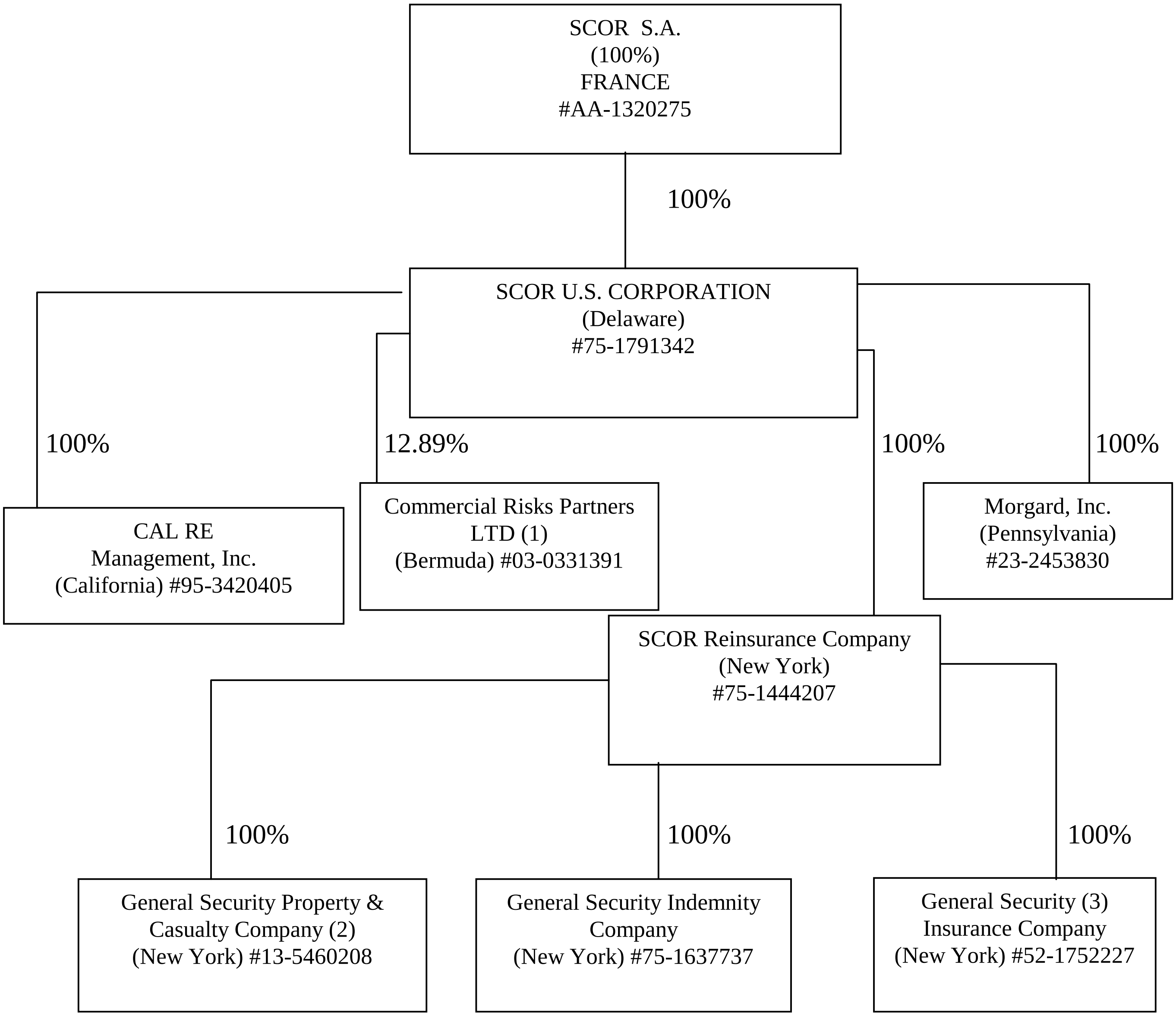
D. Holding Company System

The Company is a controlled insurer owned directly by SCOR Reinsurance Company, a New York corporation. SCOR Reinsurance Company is 100% controlled by SCOR U.S. Corporation, a Delaware corporation, which is 100% owned by SCOR S.A., a French reinsurance company. Accordingly, the Company has made the appropriate filings as required by Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a list of all entities affiliated with SCOR U.S. Corporation:

SCOR U.S. GROUP

HOLDING COMPANY CHART



1) 52.36% of Commercial Risk Partners Limited is owned by SCOR; 34.75% by Western General Insurance LTD.
2) Prior to April 18, 1996, was known as The Unity Fire & General Company
3) General Security Ins. Co. redomesticated from Maryland to NY, effective 12/31/96

At December 31, 1998, the Company had the following service agreements in effect with its parent:

1. Expense Allocation Agreement

Pursuant to the terms of this agreement, which was effective January 1, 1991 and approved by the Department on April 19, 1991, SCOR Reinsurance, SCOR U.S. Corporation, SCOR Services, Inc., Bind, Inc., NARG, Inc., California Reinsurance Management Corporation, General Security Property & Casualty Company (formerly Unity Fire and General and General Insurance Company), Morgard, Inc., Morgard Partners Inc., Unistrat Corporation of America, General Security Insurance Company, and General Security Indemnity Company agree to provide and make available to each other the services of their personnel, office space, equipment and other services.

2. Tax Allocation Agreement

The Company is a party to the consolidated federal income tax return filed with the Internal Revenue Service by SCOR U.S. Corporation and its affiliates. The agreement was effective August 2, 1991 and approved by the Department on April 19, 1991. The agreement was amended May 5, 1994 and approved by the Department.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1998 based upon the results of this examination:

Net premiums written in 1998 to surplus as regards policyholders.	.21:1
Liabilities to Liquid assets (cash and invested assets less investment in affiliates)	17.87%
Premiums in course of collection to surplus as regards policyholders	negative *

* The negative percentage is due to depooling of the SCOR Re group, creating a negative premiums in course of collection.

All of the above ratios fall within the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned incurred basis and encompass the two year one month and twenty-two days period covered by this examination:

	Amounts	Ratios
Losses incurred	$32,750,464	76.46%
Loss adjustment expenses incurred	6,336,292	14.79
Other underwriting expenses incurred	14,045,772	32.79
Net underwriting loss	(10,298,359)	(24.04)
Premiums earned	$42,834,169	100.00%

F. Abandoned Property Law

Pursuant to Sections 1315 and 1316 of the New York Abandoned Property Law any amount issued and payable to a resident of this State shall be abandoned property if unclaimed for three years by the person entitled to the funds. Although there was no abandoned property, the Company is required to file an unclaimed property form with the Office of the State Comptroller.

It is recommended that the Company make the appropriate filings with the Office of State Comptroller annually, pursuant to Sections 1315 and 1316 of the Abandoned Property Law.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 1998:

Assets	Ledger Assets	Non-ledger Assets	Not Admitted Assets	Admitted Assets
Bonds	$ 31,072,871			$31,072,871
Cash on hand and on deposit	958,638			958,638
Short-term investments	18,881,126			18,881,126
Agents' balances	(4,300,622)		$145,000	(4,445,622)
Reinsurance recoverables on loss and loss adjustment expense payments	1,460,000			1,460,000
Interest, dividends and real estate income due and accrued		$562,308		562,308
Receivable from parent, subsidiaries and affiliates	3,042,363			3,042,363
Total assets	$51,114,376	$562,308	$145,000	$51,531,684

Liabilities

Losses	$13,183,389
Loss adjustment expenses	936,390
Federal and Foreign income taxes	308,303
Unearned premiums	2,592,477
Deposit based premiums received	537,115
Ceded Retroactive Reinsurance	(8,456,078)
Total liabilities	$9,101,596

Surplus

Special surplus retroactive reinsurance	$8,456,078
Common capital stock	5,000,000
Gross paid in and contributed surplus	31,800,000
Unassigned funds (surplus)	(2,825,991)
Surplus as regards policyholders	$42,430,087
Total liabilities and surplus	$51,531,683

NOTE: The Internal Revenue Service has completed its audits of the consolidated income tax returns filed on behalf of the Company through the tax year ended 1988. All material adjustments, if any, made subsequent to the examination date and arising from said audits, are reflected in the financial statements included in this report. Audits covering the tax years ended 1989 to 1996 are currently in progress, while those covering tax years 1997-1998 have yet to commence. Except for any impact which might result from the examination changes The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $35,430,089 during the two year two month examination period, November 8, 1996 through December 31, 1998 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$42,834,169
Deductions:		
Losses incurred	$32,750,464	
Loss adjustment expenses incurred	6,336,292	
Other underwriting expenses incurred	14,045,772	
Total underwriting deductions		53,132,528
Net underwriting loss from		($10,298,359)
Investment Income		
Net investment income earned	$10,507,223	
Net realized capital gain	(35,057)	
Net investment gain		10,472,166
Other Income		
Retroactive reinsurance gain	8,740,057	
Other income	3,500	
Total other income		8,743,557
Net income before federal and foreign income taxes		$8,917,364
Federal and foreign income taxes incurred		(1,527,698)
Net income		$10,445,062

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, November 8, 1996 report on examination			$7,000,000
Net income	$10,445,062		
Change in non-admitted assets		$145,000	
Paid in capital	2,500,000		
Paid in surplus	27,300,000		
Extraordinary amounts of taxes prior years		5,073,805	
Change in unassigned surplus due to merger	403,830		
Total gains and losses	$40,648,892	$5,218,805	
Net increase in surplus			35,430,087
Surplus as regards policyholders, December 31, 1998, per report on examination			$42,430,087

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses of $13,183,389 and $936,390, respectively, are the same as the amounts reported by the Company in its December 31, 1998 filed annual statement. The examination liabilities were calculated in accordance with generally accepted actuarial principles, utilizing data as contained in the Company's filed annual statements and internal records, as verified by the examiner.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfils its contractual obligations to policyholders and claimants. The review was general in nature is not to be construed as to encompass the more precise scope of a market conduct investigation which is performed by the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

1. Sales and advertising
2. Underwriting
3. Rating
4. Claims

To accomplish this review, the Company's advertising material, application, policy forms, correspondence files, rates, and claims registers were examined.

No problem areas were encountered.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Abandoned Property Law	
	It is recommended that the Company make the appropriate filings with the State Comptroller annually, pursuant to Sections 1315 and 1316 of the Abandoned Property Law.	12

Respectfully submitted,

/S/

Marc Bruckstein
Senior Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

MARC BRUCKSTEIN, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

/S/

Marc Bruckstein

Subscribed and sworn to before me

this _____ day of __________ 2002.

Appointment No 21417

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Marc Bruckstein

as proper person to examine into the affairs of the

General Security Insurance Company

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 7th *day of June, 1999*

NEIL D. LEVIN
Superintendent of Insurance